FILE COPY

IN THE

SUPREME COURT OF THE UNITED STATES

OCTOBER TERM, 1946

No. 982

THE PURE OIL COMPANY, *Petitioner*,

v.

PETROLITE CORPORATION, LTD., *Respondent*

REPLY OF PETITIONER TO RESPONDENT'S BRIEF IN OPPOSITION TO THE PETITION FOR WRIT OF CERTIORARI

DAVID T. SEARLS,
Esperson Building,
Houston 2, Texas,
Attorney for Petitioner,
THE PURE OIL COMPANY

Of Counsel
VINSON, ELKINS, WEEMS & FRANCIS

ALPHA LAW BRIEF CO., HOUSTON

INDEX

AUTHORITIES

IN THE

SUPREME COURT OF THE UNITED STATES

OCTOBER TERM, 1946

No. 982

THE PURE OIL COMPANY, *Petitioner*,

v.

PETROLITE CORPORATION, LTD., *Respondent*

REPLY OF PETITIONER TO RESPONDENT'S BRIEF IN OPPOSITION TO THE PETITION FOR WRIT OF CERTIORARI

Respondent has attempted to gloss over and obscure the substantial federal questions raised in the petition for writ of certiorari by stating that such questions were not decided in the Circuit Court of Appeals and are not involved in this case, that this case involves solely principles of property and contract law, and that there can be no issue respecting patents, whether expired or unexpired, since there is no license agreement in effect between the parties and there is no controversy in the case concerning infringement of patents. (Brief, pp. 1, 2.)

1. The Circuit Court of Appeals decided the questions presented here by the petition for writ of certiorari.

The nub of this suit from the beginning has been to have determined the legal effect of Respondent's unlawful act in pursuing its plan to require Petitioner to pay royalties under the expired patents listed in the 1930 license agreement. Petitioner refused to accept the tendered sales agreement which would have carried out this plan and brought this suit for a declaration of its rights.

As a result of Respondent's unlawful act two principal questions are presented: (1) Is Petitioner relieved from agreeing upon the sales and purchase agreement which would impose upon it obligations to pay royalties under expired patents and which would allow Respondent to retain control of the equipment for the purpose of assuring payment of such royalties? (2) Does Petitioner have the right to have determined in a declaratory judgment suit the question whether Respondent can recover possession of the property when such recovery would be in furtherance of its plan to compel payment of royalties under expired patents?

With respect to the first question, the Circuit Court of Appeals held that since the purchase option required Petitioner to agree upon a sales and purchase agreement, it was necessary for Petitioner to agree with Respondent on such agreement in order to acquire title to the property (R. 59). In deciding the second question, the Circuit Court of Appeals recognized that Respondent's act was unlawful and arbitrary, but stated that this question should await the bringing of a suit by Respondent to recover possession and could not be determined in this declaratory judgment suit (R. 60).

2. Petitioner's complaint raises the issues presented by the petition for writ of certiorari.

Respondent has made the bald statement in its brief that "there are no allegations of fact in support of Petitioner's

conclusion that such agreement required the payment of royalties on expired patents." (Brief, p. 6.)

Petitioner alleged in its complaint that "The sales and purchase agreement tendered by defendant would have required plaintiff to pay royalties on all processes and products disclosed by the 70 patents listed in said license agreement, 68 of said patents had expired at the time said tender was made, and all of said patents will have expired by November, 1945" (R. 33). Petitioner further alleged that the tendered sales agreement was a subterfuge and a sham, that the provisions requiring it to pay royalties under expired patents and reserving to Respondent an option to repurchase were unreasonable and that by reason thereof Respondent waived any requirement or condition that a sales and purchase agreement be entered into in order for Petitioner to acquire title to the equipment (R. 33).

The Circuit Court of Appeals recognized that these allegations were sufficient to raise the issue that the tendered agreement was unlawful and arbitrary and said:

> "We are not here concerned with the fact that the Appellee tendered a sales and purchase agreement reserving to itself an option to repurchase from Appellant the equipment and at the same time exercising the option then and there to repurchase it, and that such tendered agreement was arbitrary, unreasonable, and contrary to the spirit and intent of the lease agreement in this case. This is not a suit by Petrolite to recover the equipment wherein any estoppel created by its arbitrary action could be invoked" (R. 60).

The statement by Respondent in its brief that the invention relating to desalting was made long after 1930 is not supported by the record. The question as to whether the patents listed in the 1930 license agreement cover desalting as well as dehydrating, which is the contention of Petitioner,

is a matter to be determined after the introduction of proof on the trial, but aside from this fact Petitioner is using some of the equipment to practice dehydrating (R. 27) and Respondent does not question the point that the expired patents listed in the 1930 license agreement cover the electrical process for dehydrating crude oil.

3. This case does not involve a forfeiture of title by reason of a misuse of patents and the decision of the Court in Hartford-Empire Company, et al., v. United States, 325 U.S. 386, is not pertinent.

Respondent asserts in its brief that the Supreme Court has never held that a misuse of patents works a forfeiture and cites the decision of the court in *Hartford-Empire Company, et al., v. United States*, 325 U.S. 386 (Brief, p. 9). We do not contend here that Respondent's unlawful act resulted in a forfeiture of its title to the equipment but we do contend that where Respondent was willing to carry out a particular provision of a purchase option, providing for the execution of a sales and purchase agreement, only under conditions which would require Petitioner to pay royalties under expired patents, such act has the legal effect of relieving compliance with that particular provision and Petitioner becomes entitled to have the option enforced in accordance with its other terms which were adequate to support the sale of the property.

4. The courts are not limited in their consideration of questions as to misuse of patents to only those cases involving enforcement of license agreements or infringement of patents.

Respondent states in its brief that there can be no issue

respecting patents or the use thereof, whether expired or unexpired, since there is no license agreement in effect between the parties and as there is no controversy concerning infringement of patents (Brief p. 2). The determination of questions with respect to misuse of patents is not limited to this narrow field. Where Respondent has attempted as an incident to the sale of property to require payment of royalties under expired patents, it is an important matter of Federal policy to determine the legal effect of this act which runs counter to the policy and purpose of the patent laws. Where a party imposes unlawful conditions in the carrying out of a particular provision of an executory agreement, it should be held that he has waived or relieved compliance with that provision of the agreement because a person should not be required to comply with any provision which would result in a violation of a Federal statute.

5. A trial court should not sustain a motion to dismiss under the Federal Rules for failure to state a claim unless it appears beyond any doubt that the plaintiff would not be entitled to any relief under any state of facts which might be proved on the trial of the case.

This case is a clear example of the error of a trial court in attempting to decide a case on a motion to dismiss. Petitioner's complaint raises issues of fact and all of the allegations therein must be assumed to be true on this appeal from a judgment sustaining a motion to dismiss. Petitioner has not had its day in court and it should be given an opportunity to prove and establish the unlawful action of Respondent in attempting to carry out its plan of requiring and assuring payment of royalties under expired patents.

Many of the Circuit Courts of Appeals have held that

there is no justification for sustaining a motion to dismiss a complaint under the Federal Rules for failure to state a claim unless it appears to be a certainty that the plaintiff would be entitled to no relief under any state of facts which could be proved in support of the claim. *Dennis, et al., v. Village of Tonka Bay, et al.*, 151 F. (2d) 411, 412 (C.C.A. 8th, 1945); *Carroll, et al., v. Morrison Hotel Corporation, et al.*, 149 F. (2d) 404, 406 (C.C.A. 7th, 1945); *Dioguardi* v. *Durning*, 139 F. (2d) 774, 775 (C.C.A. 2nd, 1944); *Continental Collieries, Inc., v. Shober*, 130 F. (2d) 631, 635 (C.C.A. 3rd, 1942); *Tahir Erk v. Glenn L. Martin Co.*, 116 F. (2d) 865, 870 (C.C.A. 4th, 1941).

Respectfully submitted,

David T. Searls

DAVID T. SEARLS,
Esperson Building,
Houston 2, Texas,
Attorney for Petitioner,
THE PURE OIL COMPANY

Of Counsel
VINSON, ELKINS, WEEMS & FRANCIS
Esperson Building, Houston 2, Texas